

# Indiana's Outcomes-Based Funding Model in National Context

*Presented to the Indiana Commission for Higher Education*

October 14, 2021

# Common Components of State Funding Models

## Base-Plus/Historic

Allocation based on prior levels of funding

Adjusted +/- based on available funds

Goal: Institutional fiscal stability

Challenge: Equity in institutional funding

## Enrollment

# of students enrolled at census date

Recent shift to course completion

Goal: Expand access

Challenge: Incentive on prolonged persistence/retention

## Outcome-Based

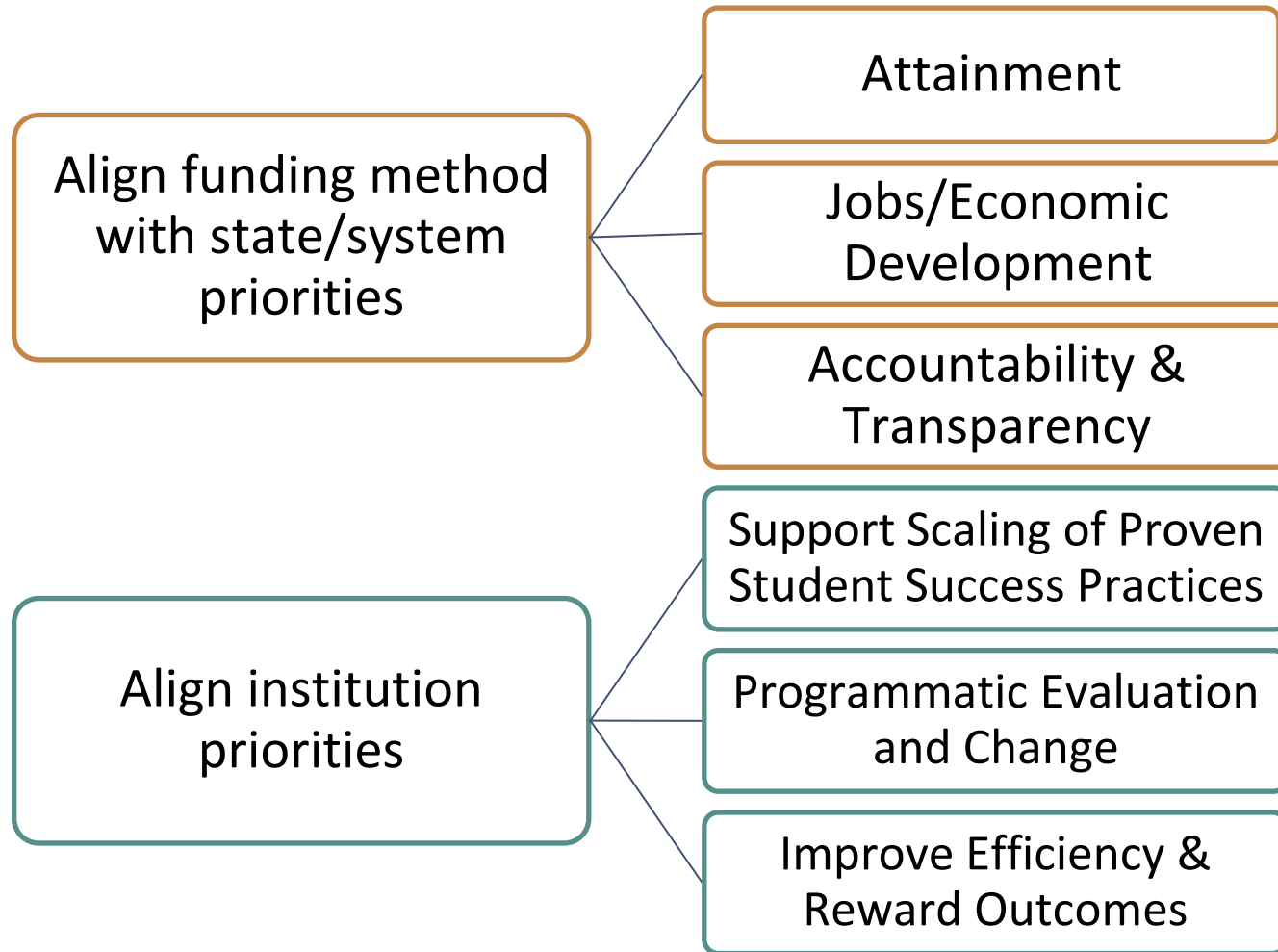
Funding based on student success

Significant portion of general allocation

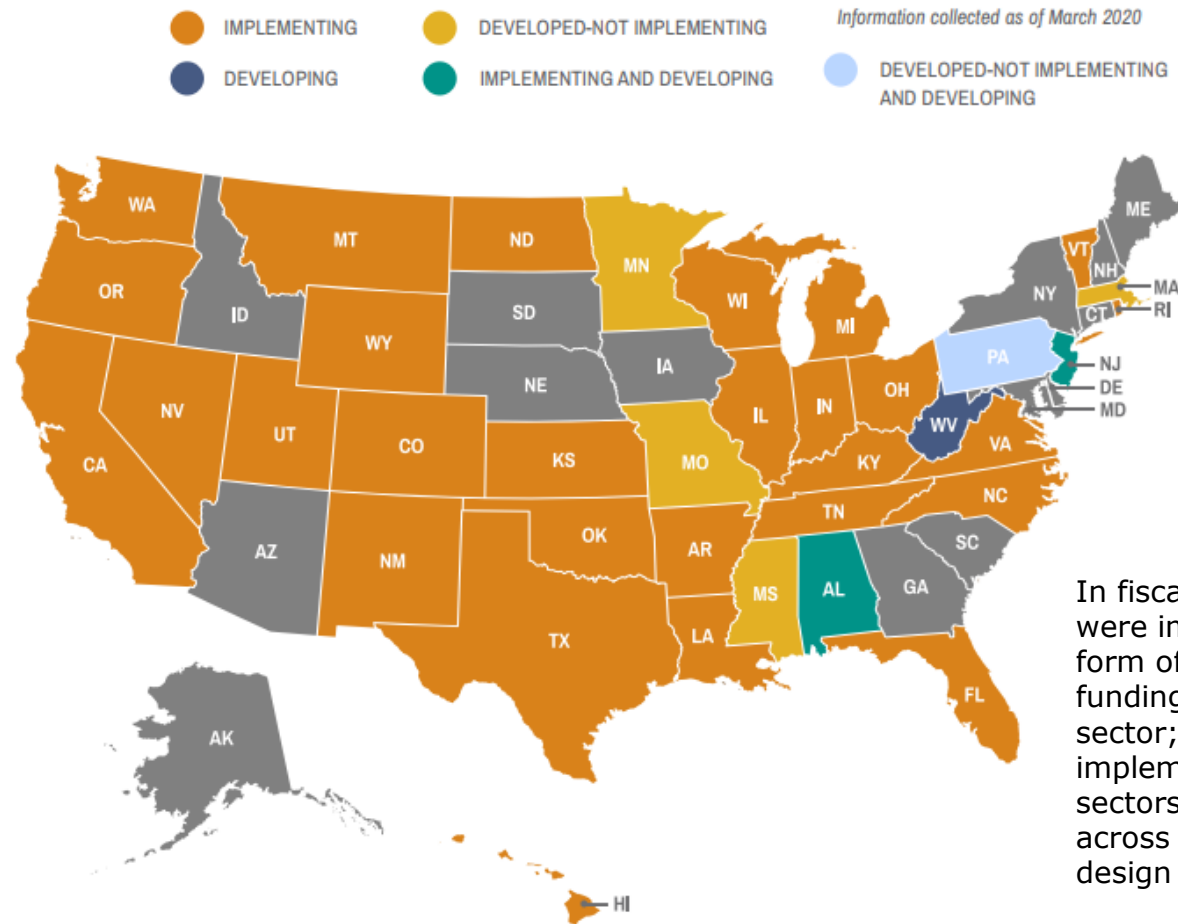
Goal: Increase completion & equity

Challenge: Capacity for colleges to respond

# Why Funding Methodologies Matter



# States Developing and Implementing OBF in FY 2020



In fiscal year 2020, 30 states were implementing some form of outcomes-based funding in at least one sector; with 21 states implementing in both sectors. There is variation across these states in both design and funding.

# OBF Typology

- State funding systems vary significantly in design, focus and sophistication.
- HCM Strategists has developed a typology for Outcomes-Based Funding ranging from Type I (Rudimentary) to Type IV (Advanced).

## Type IV

- State has completion/attainment goals and related priorities
- Recurring/Base funding
- *High level of state funding (25% or greater)*
- Differentiates by institutional mission
- Total degree/credential completion included
- Outcomes for underrepresented students prioritized
- *Formula driven/incentives continuous improvement*
- *Sustained for two or more consecutive fiscal years*

# Best Practices of OBF Models

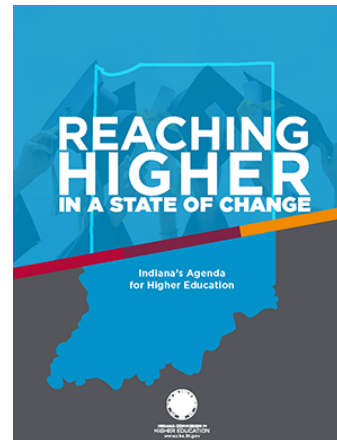
- Aligned with attainment goals
- Limited metrics focused on measures (e.g. completions) that do not already have a funding source (e.g. tuition)
- Encourage success of priority populations
- Reflect institutional missions
- Formula-driven to support continuous improvement
  - No targets and goals for each metric
  - Never a reason to “give up” or “declare victory”
  - Meaningful level of funding (recurring/base) every year
  - Implemented over long period of time
  - Adjustments are evolutionary rather than revolutionary

# Align to State Attainment Goal & Strategic Priorities

Indiana's funding model reflect the state's priorities:

- Completion
- Equity
- Talent

And is aligned to Goal 2025 that **at least 60 percent of Hoosiers have a quality credential.**



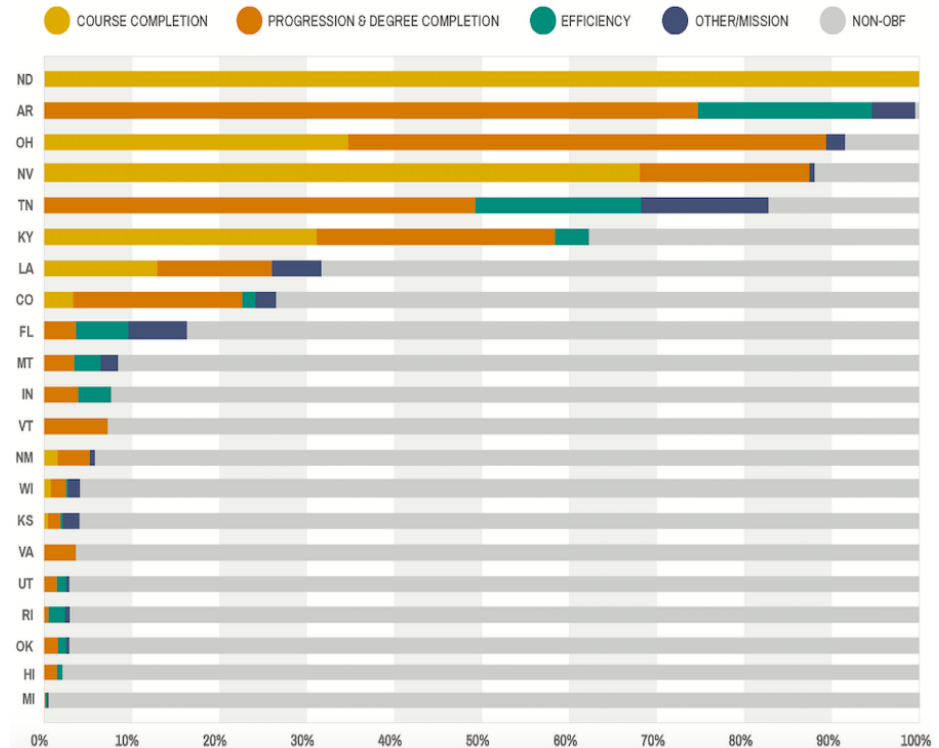
**REACHING  
HIGHER**  
IN A STATE OF CHANGE

A Decade of  
Reaching Higher

# Limit Metrics, Prioritize Degree Completion

**Limited metrics** that measure the “what’s” (degree completions, student milestones, priority degrees), which are easy to measure; not the “how’s” (teaching practices or specific reforms)

**Degree completion** is fundamental to achieving state attainment goals and is aligned with the mission of all institutions. It also lacks its own external funding source, unlike enrollment, which drives tuition.



*In Fiscal Year 2020*, states with outcomes-based funding models in both sectors allocated an average of 14 percent of total state institutional funding, and about 50 percent of the outcomes-based funding allocation on student progression and completion outcomes. Indiana allocated approximately 3.5 percent of total institutional funding, and just over 50 percent of its outcomes-funding allocation, based on student progression and completion outcomes. On-time degree rate (efficiency) comprises the rest of the states allocation.



# Encourage Success of Priority Populations

Well-developed outcomes-based funding models include factors that promote the success of traditionally underrepresented student populations.

**Indiana** incorporates this critical feature by applying a 25% premium for “at-risk” students that complete degrees and accounts for 15.6% of overall OBF funding.

| State     | Approach               | Premium                      | Categories   |
|-----------|------------------------|------------------------------|--|
| AR        | Bonus                  | 30% cumulative               | 1. URP<br>2. Low-income<br>3. Adults                                 |
| HI        | Separate Metric        | 33% premium                  | 1. Low-income,<br>2. Native Hawaiian                                 |
| <b>IN</b> | <b>Separate Metric</b> | <b>25% premium</b>           | <b>1. Low-income</b>   |
| KY        | Separate Metric        | 33%                          | 1. URP<br>2. Pell  |
| LA        | Bonus                  | 25% cumulative               | 1. URP<br>2. Pell<br>3. Adult  |
| TN        | Bonus                  | 80% for one<br>100% for both | 1. Pell<br>2. Adult<br>3. Academically underprepared (two-year only) |

URP = Underrepresented populations which typically includes racial and ethnic minorities and rural populations.  
Low-income = Most commonly categorized as Pell eligible.

# Reflect Institutional Mission

All public institutions that contribute to meeting a state's postsecondary goals should be included in the state's funding approach.

Models should recognize a **system** of higher education and the specific mission or role each institution serves in moving the state toward its higher education goals.

The model should allow for differences in institutional mission, student population and other characteristics.

Approaches include:

- **Common metrics plus mission-specific metrics for different types (IN)**
- Variable weighting across metrics based on type of institution
- Combinations

**Mission Differentiation in Indiana's Model**

| Metric  | IUB, PUWL, IUPUI, BSU | IUE, IUK, IUNW, IUSB, IUSE, PNW, PUFW, ISU, USI | ITCC, VU       |
|---|-----------------------|---|----------------|
| Overall Degree Completion (Varied by Degree Type) | X                     | X   | X              |
| At-Risk Degree Completion                         | X                     | X   | X              |
| STEM Degree                                       | X                     | X   | X              |
| Student Persistence                               |                       | X (30, 60, 90)                                  | X (15, 30, 45) |
| On-Time Graduation Rate                           | X                     | X   | X              |

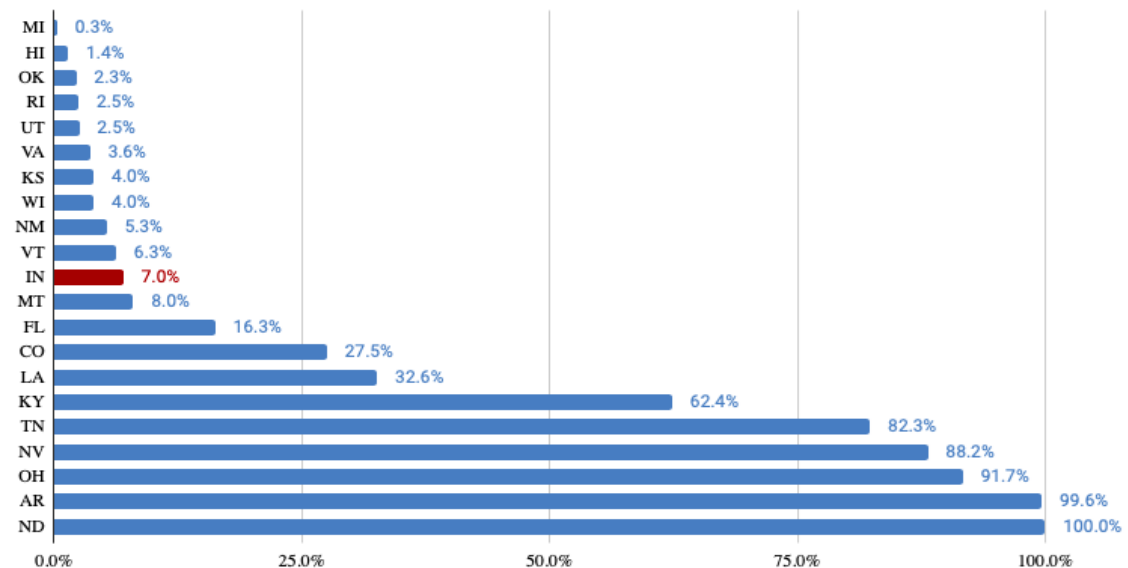
# Align to State Attainment Goal & Strategic Priorities

Building OBF as a portion of recurring support to institutions, rather than offering it on a new-dollar only basis, promotes sustainability and ensures that the policy intent does not languish while waiting for new funding that may never materialize.

Indiana uses a hybrid approach using a portion of base funding + new state investment

In FY 2020, the percent of state institutional support allocated to outcomes ranged from less than 1 percent to nearly 100 percent of state institutional support, **Indiana** sits at the median of 7 percent.

OBF as Percentage of FY 2020 State Institutional Support (for states with OBF in Two-Year and Four-Year sectors)



# Encourage Continuous Improvement Through a Formula

The strongest funding models encourage institutions to focus on continuous improvement across the outcomes prioritized in the funding model. There are different approaches states use to promote improvement. Most states use one of two proportional funding models.

## **Proportional Funding Based on Shares of Outcomes**

**Produced:** In these distribution formulas, outcome data is collected weighted and summed. Weights may include cost, priority populations and/or priority degree fields.

*Ohio and Oregon are examples of states that use this approach.*

## **Proportional Funding Based on Growth of Outcomes**

**Produced:** These distribution models are also proportional but vary from funding based on shares in that each institution's current share of funding is adjusted by the percent change in their own outcome production.

*Tennessee and Wisconsin are examples of states that use this approach.*

## **Funding Based on Growth in Outcomes:**

These models establish a per unit value across each outcome and pay institutions for increases in the number of outcomes produced over a prior period.

**Indiana** uses this approach. Indiana includes two three-year averages for comparison (six years of data).

# Common Pitfalls of Outcomes Funding to Avoid

- “All or nothing” thresholds that provide no support or incentive for institutions working to improve above or below
- Short-term models designed only for one economic, political or demographic environment (e.g. one budget cycle, growth or “new money” only)
- Complex measures that are not transparent or produce counterproductive incentives
- Sudden or unpredictable changes in philosophy or key definitions or mechanics
- Not having a process for necessary adjustments

# OBF + COVID-19

*The COVID-19 pandemic has disrupted the postsecondary system in many ways. HCM is working with Indiana and other states to elevate considerations for funding formulas in context of the pandemic's effects on postsecondary students and institutions.*

- Priorities of student success and attainment that created the original formula remain.
- State appropriations must be allocated by some methodology. If the outcomes-based funding formula is not used, what are the alternatives? How strategic are the alternatives? Are they aligned with state goals and priorities?
- Student success funding is an important policy but is just a tool. Decisions should remain student focused.
- Examine if the processes for reporting institution outcome data have been disrupted. Understand what is necessary to continue to collect the data so it can be verified and included in upcoming formulas.
- Continue to monitor effects on outcome data and adjust as necessary.

# Priorities for Review

- Maintain focus on alignment to state goals, particularly need for more educated workforce.
- Consider enhancements to mission differentiation (while keeping the model simple).
- Keep access and success for at-risk population front-and-center.
- Evaluate range of data used (six years vs. four years).
- Continue to monitor implications of COVID-19.

Martha Snyder, Senior Director

[martha\\_snyder@hcmstrategists.com](mailto:martha_snyder@hcmstrategists.com)

Nate Johnson, Senior Affiliate

[nate.johnson@postsecondaryanalytics.com](mailto:nate.johnson@postsecondaryanalytics.com)

501 Congress Avenue, Austin, TX 78701 | T 202.547.2222

**HCM STRATEGISTS**  
ALIGN. ADVOCATE. ADVANCE.

HCMStrategists.com

